

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other				Local Unit Name E.U.P. Transportation Authority		County Chippewa	
Fiscal Year End September 30, 2007		Opinion Date February 12, 2008		Date Audit Report Submitted to State March 24, 2008			

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- | YES                                     | NO                       | Check each applicable box below. (See instructions for further detail.)   |
|---|--------------------------|---|
| 1. <input checked="" type="checkbox"/>  | <input type="checkbox"/> | All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.   |
| 2. <input checked="" type="checkbox"/>  | <input type="checkbox"/> | There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.   |
| 3. <input checked="" type="checkbox"/>  | <input type="checkbox"/> | The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.  |
| 4. <input checked="" type="checkbox"/>  | <input type="checkbox"/> | The local unit has adopted a budget for all required funds.   |
| 5. <input checked="" type="checkbox"/>  | <input type="checkbox"/> | A public hearing on the budget was held in accordance with State statute.   |
| 6. <input checked="" type="checkbox"/>  | <input type="checkbox"/> | The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.   |
| 7. <input checked="" type="checkbox"/>  | <input type="checkbox"/> | The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.  |
| 8. <input checked="" type="checkbox"/>  | <input type="checkbox"/> | The local unit only holds deposits/investments that comply with statutory requirements.   |
| 9. <input checked="" type="checkbox"/>  | <input type="checkbox"/> | The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the <i>Bulletin for Audits of Local Units of Government in Michigan</i> , as revised (see Appendix H of Bulletin).  |
| 10. <input checked="" type="checkbox"/> | <input type="checkbox"/> | There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover. |
| 11. <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit is free of repeated comments from previous years.  |
| 12. <input checked="" type="checkbox"/> | <input type="checkbox"/> | The audit opinion is UNQUALIFIED.   |
| 13. <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).  |
| 14. <input checked="" type="checkbox"/> | <input type="checkbox"/> | The board or council approves all invoices prior to payment as required by charter or statute.  |
| 15. <input checked="" type="checkbox"/> | <input type="checkbox"/> | To our knowledge, bank reconciliations that were reviewed were performed timely.  |

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>		Enclosed	Not Required (enter a brief justification)	
Financial Statements		<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations		<input checked="" type="checkbox"/>		
Other (Describe)		<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC			Telephone Number 906-495-5952	
Street Address 16978 S. Riley Avenue			City Kincheloe	State MI
			Zip 49788	
Authorizing CPA Signature <i>Kenneth A. Talsma</i>		Printed Name Kenneth A. Talsma		License Number 1101024989

**EASTERN UPPER PENINSULA  
TRANSPORTATION AUTHORITY**

---

**BASIC FINANCIAL STATEMENTS**

September 30, 2007

**EASTERN UPPER PENINSULA TRANSPORTATION AUTHORITY**

**BOARD OF DIRECTORS**

Frank Sasso  
Chair

Rodney Richards  
Vice Chair

Aaron Hopper  
Secretary/Treasurer

Ted Postula  
Trustee

Dennis Robinson  
Trustee

**ADMINISTRATION**

Charles Moser  
Executive Officer

G. Akemi Gordon  
Finance Director

## **TABLE OF CONTENTS**

	<b><u>Page</u></b>
<b>INDEPENDENT AUDITOR’S REPORT</b> .....	1
<b>MANAGEMENT’S DISCUSSION AND ANALYSIS</b> .....	3
<b>BASIC FINANCIAL STATEMENTS:</b>	
Proprietary Fund:	
Statement of Net Assets .....	6
Statement of Revenues, Expenses, and Changes in Net Assets .....	7
Statement of Cash Flows .....	8
<b>NOTES TO FINANCIAL STATEMENTS</b> .....	9
<b>SUPPLEMENTARY INFORMATION:</b>	
Schedule 1 – Statement of Local Revenues .....	20
Schedule 2 – Schedule of Expenditures of Federal and State Awards (1) (2) .....	21
Schedule 3 – Schedule of Expenses by Division .....	22
OAR Schedule 3E – Nonurban County Ferry Service Reconciled Expense Schedule Report .....	23
OAR Schedule 3E – Nonurban County Regular Service Reconciled Expense Schedule Report .....	25
OAR Schedule 3N – Nonurban Regular Service Nonfinancial Report .....	27
OAR Schedule 3R – Nonurban County Ferry Service Reconciled Revenue Schedule Report .....	28
OAR Schedule 3R – Nonurban County Regular Service Reconciled Revenue Schedule Report .....	29
Schedule 4 – Operating Assistance Calculation .....	30
<b>REPORT ON COMPLIANCE</b>	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	31



**ANDERSON, TACKMAN & COMPANY, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**KINROSS OFFICE**

PHILLIP J. WOLF, CPA, PRINCIPAL  
SUE A. BOWLBY, CPA, PRINCIPAL  
KENNETH A. TALSMAN, CPA, PRINCIPAL  

---

DEANNA J. MAYER, CPA

**MEMBER AICPA**  
**DIVISION FOR CPA FIRMS**

**MEMBER MACPA**

**OFFICES IN**  
**MICHIGAN & WISCONSIN**

**INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Eastern Upper Peninsula  
Transportation Authority  
4001 I-75 Business Spur  
Sault Ste. Marie, MI 49783

We have audited the accompanying financial statements of the business-type activities and major fund of the Eastern Upper Peninsula Transportation Authority, (a component unit of the County of Chippewa, Michigan), as of and for the year ended September 30, 2007, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Eastern Upper Peninsula Transportation Authority, Michigan, as of September 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 2008 on our consideration of the Eastern Upper Peninsula Transportation Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and supplementary schedules as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in blue ink that reads "Anderson Tackman & Co. PLC".

**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**

February 12, 2008

## **Management's Discussion and Analysis**

---

**Using this Annual Report**

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets provide information about the activities of the Authority as a whole and present a longer-term view of the Authority's finances.

**The Authority as a Whole**

The Authority's combined net assets increased from a year ago increasing from \$9,788,703 to \$9,844,594.

In a condensed format, the table below shows the net assets of Eastern Upper Peninsula Transportation Authority.

	Business-type Activities <u>2006</u>	Business-type Activities <u>2007</u>
Current Assets	\$ 833,864	\$ 901,308
Noncurrent Assets	<u>9,491,474</u>	<u>9,476,960</u>
Total Assets	<u>\$ 10,325,338</u>	<u>\$ 10,378,268</u>
Current Liabilities	\$ 211,621	\$ 252,698
Long-Term Debt Outstanding	<u>325,014</u>	<u>280,976</u>
Total Liabilities	<u>536,635</u>	<u>533,674</u>
Net Assets		
Invested in Capital Assets -		
Net of Debt	9,320,965	9,346,604
Unrestricted	<u>467,738</u>	<u>497,990</u>
Total Net Assets	<u>\$ 9,788,703</u>	<u>\$ 9,844,594</u>



The current level of unrestricted net assets for our business-type activities stands at \$497,990, or about 14% of expenses.

Net Assets of the business-type activities increased approximately .57%.

The following table shows the activities of the Authority.

	<u>Business-type Activities 2006</u>	<u>Business-type Activities 2007</u>
Operating Revenues		
Fares	\$ 1,316,102	\$ 1,378,883
Non-Operating Revenues		
Local	28,753	36,829
State	1,453,740	1,412,217
Federal	84,752	87,790
Capital Match	31,111	45,782
Capital Grants	463,196	527,170
Interest Earned	<u>9,176</u>	<u>12,301</u>
Total Revenues	<u>3,386,830</u>	<u>3,500,972</u>
Program Expenses		
Transportation	<u>3,466,964</u>	<u>3,445,081</u>
Total Expenses	<u>3,466,964</u>	<u>3,445,081</u>
Changes in Net Assets	(80,134)	55,891
Beginning Net Assets	<u>9,868,837</u>	<u>9,788,703</u>
Ending Net Assets	<u>\$ 9,788,703</u>	<u>\$ 9,844,594</u>

### **Business-Type Activities**

The Authority's total business-type revenues increased by approximately \$114,142. A majority of the Authority's revenue is tourist and weather driven. The increase in revenue can be attributable to fuel surcharge which became effective August 16, 2006 and also an increase in full fare revenue.

Expenses decreased by about \$21,883 during the year. This was primarily the result of careful monitoring of expenses.

### **Capital Asset and Debt Administration**

At the end of 2007, the Authority had \$9,476,960 invested in a broad range of capital assets, including ferry boats, docks, buses, machinery and equipment.

The Authority currently has debt in the amount of \$130,356 in notes payable.

### **Economic Factors and Next Year's Budgets and Rates**

The Authority is in a budget battle from year to year, primarily with its busing operations. The Authority receives state financial assistance under provisions of Act 51 whose revenue stream is funded by the Comprehensive Transportation Fund (CTF). With increased expenses and reduced state and local funding, the Authority will be taking the necessary measures to operate its busing and ferry operations under a balanced budget.

### **Contacting the Authority's Management**

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact our office at 906-632-2898.

## **Basic Financial Statements**

---

# Eastern Upper Peninsula Transportation Authority

## Statement of Net Assets September 30, 2007

### ASSETS

#### Current Assets:

Cash and Cash Equivalents (Note 3)

Unrestricted	\$ 609,069
Restricted	20,000

#### Accounts Receivable:

Accounts Receivable - General	160,725
-------------------------------	---------

Due From State of Michigan (Note 15)	102,946
--------------------------------------	---------

Prepaid Expenses	7,255
------------------	-------

Other Assets	1,313
--------------	-------

Total Current Assets	901,308
----------------------	---------

#### Noncurrent Assets:

Capital Assets - not being Depreciated (Note 4)	61,448
---	--------

Capital Assets - Net of Accumulated Depreciation (Note 4)	9,415,512
---	-----------

Total Noncurrent Assets	9,476,960
-------------------------	-----------

Total Assets	\$ 10,378,268
--------------	---------------

### LIABILITIES

#### Current Liabilities:

Accounts Payable	\$ 108,997
------------------	------------

Accrued Payroll and Related Liabilities	93,147
---	--------

Due to State of Michigan	2,908
--------------------------	-------

Note Payable (Note 6)	41,760
-----------------------	--------

Accrued Compensated Absences (Note 5)	824
---------------------------------------	-----

Other Liabilities	5,062
-------------------	-------

Total Current Liabilities	252,698
---------------------------	---------

#### Noncurrent Liabilities:

Note Payable (Note 6)	88,596
-----------------------	--------

Accrued Compensated Absences (Note 5)	192,380
---------------------------------------	---------

Total Noncurrent Liabilities	280,976
------------------------------	---------

Total Liabilities	533,674
-------------------	---------

### NET ASSETS

Invested in Capital Assets - Net of Related Debt	9,346,604
--	-----------

Unrestricted	497,990
--------------	---------

Total Net Assets	\$ 9,844,594
------------------	--------------

# Eastern Upper Peninsula Transportation Authority

## Statement of Revenues, Expenses, and Changes in Net Assets For the Year Ended September 30, 2007

Operating Revenue	
Fares - Ferry and Bus	\$ 1,285,322
Fares - Contractual	88,060
Freight Tariffs	<u>5,501</u>
Total Operating Revenue	<u>1,378,883</u>
Operating Expenses	
Salaries and Wages	1,980,621
Outside Services	188,259
Materials and Supplies	544,671
Utilities	53,400
Casualty and Liability Costs	106,809
Travel and Auto Expense	17,684
Depreciation	539,954
Interest Expense	7,774
Other Expenses	<u>5,909</u>
Total Operating Expenses	<u>3,445,081</u>
Operating Income (Loss)	<u>(2,066,198)</u>
Nonoperating Revenue	
Local	28,075
Proceeds from sale of assets	6,628
Interest Income	12,301
State and Federal	
Rural Transit Assistance Program	3,500
JARC Grant	16,000
USDOT Operating Grant (section 5311)	76,290
Appropriation (Act 51)	1,404,217
Capital Match	45,782
Other Revenue	<u>2,126</u>
Total Nonoperating Revenue	<u>1,594,919</u>
Income (Loss) Before Contributions	(471,279)
Capital Contributions	
State and Federal Capital Grant	<u>527,170</u>
Changes in Net Assets	55,891
Total Assets - October 1, 2006	<u>9,788,703</u>
Total Assets - September 30, 2007	<u>\$ 9,844,594</u>

See accompanying notes to financial statements.

# Eastern Upper Peninsula Transportation Authority

## Statement of Cash Flows For the Year Ended September 30, 2007

### Cash Flows From Operating Activities:

Cash Received From Customers	\$ 1,284,062
Cash Payments to Employees for Service and Benefits	(1,991,368)
Cash Payments to Suppliers for Goods and Services	(913,844)
Net Cash Provided by Operating Activities	(1,621,150)

### Cash Flows From No capital Financing Activities:

Capital grant funds received to acquire property and equipment	527,170
Net acquisitions of property and equipment	(525,440)
Proceeds from sale of assets	6,628
Interest and surcharge allocation to local ferry capital match	69,763
Local share of capital acquisitions	(23,981)
Principal Payments	(40,153)
Local sources	28,075
Federal and state sources	1,502,133
Net Cash Provided by Noncapital Financing Activities	1,544,195

### Cash Flows From Investing Activities:

Interest on Cash Equivalents	12,301
Net Cash Provided by Investing Activities	12,301
Net Increase (decrease) in Cash and Cash Equivalents	(64,654)
Cash and Cash Equivalents at Beginning of Year	693,723
Cash and Cash Equivalents at End of Year	\$ 629,069
Interest Paid	\$ 7,774

### Reconciliation of Operating Income to Net Cash Provided by Operating Activities:

Operating Income (Loss)	\$ (2,066,198)
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation Expense	539,954
Change in Net Assets and Liabilities	
(Increase) Decrease in Accounts Receivable	(94,821)
(Increase) Decrease in due from State of Michigan	(37,904)
(Increase) Decrease in Prepaid Expenses	389
(Increase) Decrease in Other Assets	238
Increase (Decrease) in Accounts Payable	47,639
Increase (Decrease) in Other Accrued Liabilities	1,518
Increase (Decrease) in Deferred Revenue	
Increase (Decrease) in Compensated Absences	(12,265)
Increase (Decrease) in Due to State of Michigan	607
Increase (Decrease) in Other Liabilities	(307)
Net Cash Provided by Operating Activities	\$ (1,621,150)

See accompanying notes to financial statements.

## **Notes to Financial Statements**

---

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Eastern Upper Peninsula Transportation Authority conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. The following is a summary of the significant accounting policies used by the Authority:

**A – Reporting Entity:**

The Authority was incorporated on March 15, 1975, by Chippewa and Luce Counties, Michigan, under provisions of Act No. 55, of 1951, as amended, for the purpose of acquiring, owning and operating a public transportation system within the boundaries of the participating counties. The Authority's status as a separate public body corporation was reaffirmed on March 18, 1980 when the participating counties enacted an inter-local agreement under the provision of Act 7, Public Acts of 1967, as amended.

The financial statements of the Authority include the following operations: St. Mary's River Ferry System, Rural Bus Program, and the internal cost center (administration) that supports those operations. The operations listed above are included because the Authority has direct oversight responsibility over each operation.

The Authority is governed by a five member board, of which three members are appointed by the Chippewa County Board of County Commissioners and two members are appointed by the Luce County Board of County Commissioners.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," as amended by GASB 39, for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Eastern Upper Peninsula Transportation Authority, a discretely presented component unit of Chippewa County.

**B – Basic Financial Statements:**

The basic financial statements (i.e., the statement of net assets and the statement of revenues, expenses, and changes in net assets) report information on all of the nonfiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements. Business-type activities rely to a significant extent on fees and charges for support.

**C – Measurement Focus, Basis of Accounting and Financial Statement Presentation:**

The basic financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.



**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

All other revenue items are considered to be available only when cash is received by the government.

Business-Type activity funds distinguish operating revenue and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary fund relates to charges to customers for services. Operating expenses for proprietary funds include the cost of sales and services, and administrative expenses. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

**D - Assets, Liabilities, and Net Assets or Equity**

Capital Assets – Capital assets, which include property, plant, and equipment, are reported in the financial statements. Accordingly, all assets associated with their activity are included on the balance sheet with reported fund equity (net total assets). Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. All Capital Assets are capitalized and depreciated over a useful life of 3 years or more.

Depreciation – Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Docks	40 years
Ferries	10 years
Equipment	3-10 years
Building improvements	40 years

Long-Term Obligations – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

Accumulated Unpaid Vacation, Sick Pay, and Other Employee Benefits – Accumulated unpaid vacation, sick pay and other employee benefit amounts are accrued when incurred.

Use of Estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents – Cash and cash equivalents consist of demand deposit cash in savings, money market accounts, and certificates of deposit. For purposes of the statement of cash flows, the propriety fund type considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The Board applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Budgetary Information – Annual budgets are adopted on a basis consistent with U.S. generally accepted accounting principles. A budgetary comparison schedule is not presented as it is not legally required.

Budget - The Authority follows these procedures in establishing budgetary data:

- a. Authority administration prepares and submits to the Authority Board a proposed operating budget prior to commencement of the fiscal year. The operating budget includes proposed expenses and means of financing them and is stated on a basis consistent with generally accepted accounting principles (GAAP).
- b. The Authority Board formally adopts the finalized operating budget at a normal public meeting held prior to the commencement of the fiscal year.
- c. Authority administration is authorized to transfer budgeted amounts between line items within departmental budgets with post transfer Board approval.
- d. Formal budgetary integration is employed as a management control device during the year.
- e. Budgetary authority lapses at year end.
- f. Budgeted amounts are as originally adopted, with the exception of administration induced transfers which were not material in relation to the budget on the whole.

**NOTE 3 - CASH AND EQUIVALENTS**

Statutory Authority:

Michigan law (Act 196 PA 1997) authorizes the Authority to deposit and invest in one or more of the following:

- a. Bonds, securities and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.

**NOTE 3- CASH AND EQUIVALENTS (Continued)**

- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in a.
- e. Bankers acceptance of United States banks.
- f. Obligations of this State or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- h. Obligation described in a. through g. if purchased through an interlocal agreement under the urban cooperations act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

The Authority's deposits are in accordance with statutory authority. The Authority's deposits are located in several local financial institutions. All deposits are carried at cost.

<u>Balance Sheet Account</u>		<u>Cash Items</u>	
Cash and equivalents			
Unrestricted	\$ 609,069	Office fund	\$ 800
Restricted	20,000	Working fund	850
		Checking	23,212
		Savings	333,290
		Certificates of	
		Deposit	<u>270,917</u>
	<u>\$ 629,069</u>		<u>\$ 629,069</u>

The Authority has \$20,000 deposited in a savings account which is restricted for a secured MasterCard.

**NOTE 3- CASH AND EQUIVALENTS (Continued)**

**Investment and Deposit Risk**

*Interest rate risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified in the previous list of authorized investments. The Authority's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit risk.* The Authority's investment policy does not have specific limits in excess of state law on investment credit risk. The Authority has no investments for which ratings are required.

*Custodial credit risk.* Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned. State law does not require and the Authority does not have a policy for deposit custodial credit risk. As of year end, \$404,464 of the Authority's bank balance of \$627,419 was exposed to credit risk because it was uninsured and uncollateralized.

**NOTE 4 - CAPITAL ASSETS**

Capital Assets activity for the current year was as follows:

<b>Business-Type Activities:</b>	<b><u>Beginning Balances</u></b>	<b><u>Increases</u></b>	<b><u>Adjustments / Decreases</u></b>	<b><u>Ending Balances</u></b>
<i>Capital Assets not Being Depreciated:</i>				
Construction in Progress	\$ 87,593	\$ 61,448	\$ 87,593	\$ 61,448
<i>Capital Assets Being Depreciated:</i>				
EUPA Assets	1,805	-	-	1,805
Busing Assets	704,275	275,967	172,009	808,233
Ferry Assets	15,099,642	275,618	-	15,375,260
Administrative Assets	1,398	-	-	1,398
Subtotal	<u>15,807,120</u>	<u>551,585</u>	<u>172,009</u>	<u>16,186,696</u>
<i>Less Accumulated Depreciation for:</i>				
EUPA Assets	(1,577)	(138)	-	(1,715)
Busing Assets	(494,018)	(66,134)	172,009	(388,143)
Ferry Assets	(5,906,246)	(473,682)	-	(6,379,928)
Administrative Assets	(1,398)	-	-	(1,398)
Subtotal	<u>(6,403,239)</u>	<u>(539,954)</u>	<u>172,009</u>	<u>(6,771,184)</u>
Net Capital Assets being Depreciated	<u>9,403,881</u>	<u>11,631</u>	<u>-</u>	<u>9,415,512</u>
Total Capital Assets – Net of Depreciation	<u>\$ 9,491,474</u>	<u>\$ 73,079</u>	<u>\$ 87,593</u>	<u>\$ 9,476,960</u>

**NOTE 5 - LONG-TERM DEBT**

Recognition is made for the liability existing for unused benefits at September 30, 2007 as follows:

Vacation	\$ 62,226
Sick Leave	104,031
Accrued interest on outstanding sick leave balance (ferry)	<u>26,947</u>
Total long-term compensated absences	<u>193,204</u>
Less: Current Portion	<u>(824)</u>
Total long-term compensated absence	<u>\$ 192,380</u>

Sick leave is payable only upon termination and is stipulated by the particular union contract covering each employee group. The ferry group contracts allow payment of 50% of sick leave up to 960 hours of accumulated time and 100% of sick leave after 960 hours of accumulated time. Employees also have the option to sell back any hours over 960 hours to the Authority prior to year end. The Authority allocates a portion of the interest earned on the accrued balances to each ferry employee's sick leave balance as an additional benefit.

**NOTE 6 - NOTE PAYABLE**

The Authority entered into a loan contract with the State of Michigan Department of Transportation on April 20, 2000. The loan is secured by future Michigan Transportation Fund payments to the Authority. The loan, in the amount of \$381,000, is payable in annual installments of \$46,974 for ten years, including interest at the rate of 4%. The first payment was due on May 3, 2001. Activity of the note payable for the year ended September 30, 2007 is summarized as follows:

Balance, October 1, 2006	\$ 170,509
Deletions (payments)	<u>(40,153)</u>
Balance, September 30, 2007	<u>130,356</u>
Less: Current Portion	<u>41,760</u>
Long-term Portion	<u>\$ 88,596</u>

Maturities of principal and interest over the remaining life of the note payable are summarized as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 41,760	\$ 5,214	\$ 46,974
2009	43,430	3,544	46,974
2010	<u>45,165</u>	<u>1,808</u>	<u>46,973</u>
Total	<u>\$ 130,355</u>	<u>\$ 10,566</u>	<u>\$ 140,921</u>

**NOTE 7 - CAPITAL AND OPERATING GRANTS**

Property and equipment purchased with capital grant funds must be used for mass transportation purposes as follows:

- Urban mass transportation capital grant purchases must be used for ten years in the case of buses and items of equipment costing less than \$50,000, and twenty years for facilities and equipment costing \$50,000 or more.
- Michigan State Highway Commission grant purchases must be used during the useful life of all items of equipment and facilities.

The Authority currently subleases one (1) bus from the Michigan Department of Transportation (MDOT). MDOT forgives the Authority for the lease payments on the bus over the life of the lease. Title to the bus remains with MDOT.

If the asset is withdrawn from mass transportation service, the Authority must remit its proportionate share of the fair market value to the government.

Capital grant activity for the current fiscal year is summarized on the schedule of expenses by contract and general operations contained in these financial statements.

Currently, the Authority receives approximately 50% of its ferry operation expenses from a state appropriation. The Michigan Transportation Commission developed a transportation policy for island transportation systems encouraging privatization and subsidy reduction.

**NOTE 8 - RISK MANAGEMENT**

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During October 1989, the government was unable to obtain general liability insurance at a cost it considered to be economically justifiable. In December 1989, the government joined together with other governments to form the Michigan Transit Pool, a public entity risk pool currently operating as a common risk management and insurance program for any and all transit commissions, agencies, districts, authorities, boards, and similar entities. The government pays an annual premium to the pool for its general insurance coverage. The agreement for formation of the Michigan Transit Pool provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$50,000 for each insured event.

The government continues to carry commercial insurance for all other risks of loss, including Workers Compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**NOTE 8 - RISK MANAGEMENT (Continued)**

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. It is not possible to estimate the amount of such additional assessments.

The Michigan Transit Pool publishes its own financial report, which can be obtained from BDO Seidman, LLP, and 99 Monroe Ave, NW Suite 800, Grand Rapids, MI 49503-2654.

**NOTE 9 - POST EMPLOYMENT BENEFITS**

The Eastern Upper Peninsula Transportation Authority Employees' Retirement Health Benefits Plan was established in October 1992 as an Internal Revenue Code Section 501 (c) (9) Organization. The Plan provides for the payment of Eastern Upper Peninsula Transportation Authority employees' retirement health benefits.

In addition to the pension benefits described in Note 14, the Authority provides postretirement health care benefits, in accordance with State statutes, to all employees who retire from the Authority on or after attaining age 55 with at least 15 years of service or age 60 with at least 6 years of service. At September 30, 2007, ten retirees met those eligibility requirements. The post retirement health fund pays anywhere from 37.5% to 100% of retirees health insurance premiums based on the number of years of service. The Authority contributes, on a pay-as-you-go basis, 6% of payroll, to the Plan. Expenditures for postretirement health care benefits are based on the contributions and health insurance premiums. Expenditures of \$86,769 and \$104,702 were made for post retirement health insurance premiums, and \$128,367 and \$171,587 for contributions to the plan for the years ended September 30, 2006 and 2007, respectively.

Significant actuarial assumptions used in the valuation performed as of September 30, 2004, include health inflation assumption of 6% a year. In March of 2006, the Authority switched health insurance vendors. The Board approved up to \$100,000 of the savings be contributed to the post retirement health plan, in addition to the 6% of payroll

**NOTE 10 - CONTRACT CONTINGENCIES**

Under the terms of federal and state grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under terms of the grants. Such audits could lead to reimbursements to the grantor agencies. Certain grants have not been audited and settled at September 30, 2007, and any resulting liabilities from those audits are therefore undeterminable.

**NOTE 11 - NET ASSETS**

\$159,686 of net assets has been designated for local capital match on future grants.

**NOTE 12 - COST ALLOCATION PLANS**

The Authority has a cost allocation plan approved by Bus Transit Division, MDOT, for allocation of administrative expenses and mechanics wages and benefits. This approved plan has been adhered to in the preparation of these financial statements.

**NOTE 13 - FARE SURCHARGE**

The local Authority is required to provide 10% of each dollar spent on such capital grant projects. To generate the funds for this local match, a 5.0% surcharge was added to ferry ticket prices. In addition, ferry operating surpluses have been designated for capital match per agreement with the State of Michigan Department of Transportation.

**NOTE 14- RETIREMENT PLAN**Description of Plan and Plan Assets

The Authority is in an agent single-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS). The system provides the following provisions; normal retirement, deferred retirement and service retirement to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.25 percent times the final compensation (FAC), with a maximum benefit of 80% of FAC. The most recent period of which actuarial data was available was for the fiscal year ended December 31, 2006.

MERS was organized pursuant to Section 12a of Act #156, Public Acts of 1851 (MSA) 5.333(a); MCLA 46.12(a), as amended, State of Michigan. MERS is regulated under Act No. 427 of Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issued a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917-9755.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Authority's competitive bargaining unit and personnel policy. The Authority is required to contribute at an actuarially determined rate. The contribution rate as a percentage of payroll at December 31, 2006 was 21.54%.



**NOTE 14- RETIREMENT PLAN (Continued)**

Annual Pension Cost

During the fiscal year ended September 30, 2007, the Authority's contributions totaling \$217,599 were made in accordance with the contribution requirement determined by an actuarial valuation of the plan as of December 31, 2006. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required amortizing the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for this projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increases of 4.5 percent based on an age-related scale to reflect merit, longevity, and promotional salary increases. Employees of the Authority are not required to contribute to the plan.

Three year trend information as of December 31, 2006 is as follows:

	2004	2005	2006
Actuarial Value of Assets	\$ 4,124,177	\$ 4,317,915	\$ 4,583,829
Actuarial Accrued Liability	6,312,323	6,503,321	7,025,848
Unfunded AAL	2,188,146	2,185,406	2,442,019
Funded Ratio	65%	66%	65%
Covered Payroll	892,815	873,221	900,733
UAAL as a Percentage of Covered Payroll	245%	250%	271%

  

Year Ended Dec 31	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2004	\$ 170,375	100%	0
2005	164,490	100%	0
2006	186,852	100%	0

**NOTE 15 - DUE TO STATE OF MICHIGAN**

The Authority receives funding from the State of Michigan for Local Bus and Ferry Operating Assistance Programs. The computation of the amount due to the State is as follows:

	Ferry	Bus
Net Eligible Expenses	\$ 2,425,908	\$ 448,776
Funding Rate	50.00%	38.62%
Funding Earned	1,212,954	173,313
Funding Received	1,155,239	191,263*
Due from the State – Current Year	(57,715)	-
Due from the State – Prior Years	(63,420)	-
Prior payments received in FY 2007	18,189	-
Total due from State of Michigan	(102,946)	-

\* The amount of the formula funds received in FYE 07 is equal to the 1997 floor, \$191,263, per ACT 51.

**NOTE 13 - NONFINANCIAL DATA**

The methodology used for compiling mileage on 3N (NonUrban) is an adequate and reliable method for recording vehicle mileage. Because expenses associated with providing Charter service is based on vehicle hours, the methodology used for compiling hours is an adequate and reliable method.

**NOTE 14 - EXPLANATION OF INELIGIBLE EXPENSES PER THE BPT R&E MANUAL**

Ineligible expenses are classified appropriately according to the definition in the Local Public Transit Revenue and Expense Manual (R&E Manual). Audit costs are the only costs in which eligibility differs from the State R&E Manual and the Federal OMB Circular A-87.

## **Required Supplementary Information**

---

# Eastern Upper Peninsula Transportation Authority

---

## Schedule 1 Statement of Local Revenues For the Year Ended September 30, 2007

Passenger Fares - Regular Service	64,353
Passenger Fares - Ferry Service	1,220,969
Northern Transitions - Contract Fares	67,257
Luce County Mental Health - Contract Fares	12,870
Hiawatha Mental Health - Contract Fares	7,933
Package Delivery	5,501
Gain from Sale of Capital Assets	6,628
Chippewa County Operating Assistance	20,000
Luce County Operating Assistance	8,075
Interest Revenue	12,301
Other Revenue	2,126
<b>Total</b>	<b><u>1,428,013</u></b>

# Eastern Upper Peninsula Transportation Authority

## Schedule 2 Schedule of Expenditures of Federal and State Awards (1) (2) For the Year Ended September 30, 2007

	Federal CFDA Number	Grant No./ Authorization Number	Program Award Amount	Current Year's Expenditures				Prior Year's Expend.	Award Amount Remaining
				Total	Federal	State	Local		
U.S. Department of Transportation									
State and Federal Operating Assistance Computations									
Based on Operating Expenses:									
Passed Through MDOT:									
Federal Transit Capital Grants									
Capital Grant - Section 5309 (80/20)	20.509	2002-0035 72811	\$ 40,000	\$ 39,156	\$ 31,325	\$ 7,831	\$ -	\$ -	\$ 844
Capital Grant - Section 5309 (100/0)	20.509	2002-0035 84398	2,500	2,041	2,041	-	-	-	459
Capital Grant - Section 5309 (100/0)	20.500	2002-0035 84729	18,000	3,752	3,752	-	-	12,650	1,598
Capital Grant - Section 5309 (80/20)	20.500	2002-0035 87860	265,690	231,018	184,814	46,204	-	-	34,672
Capital Grant - Section 5309 (80/20)	20.505	2002-0035 77646	40,000	19,623	17,320	2,303	-	20,341	36
Capital Grant - Section 5309 (0/90)	N/A	2003-0356	656,778	77,685	-	69,917	7,768	345,518	233,575
Capital Grant - Section 5309 (0/90)	N/A	2004-0054	465,970	139,027	-	125,124	13,903	292,723	34,220
Capital Grant - Section 5309 (0/90)	N/A	2005-0054	214,200	6,285	-	5,657	628	59,450	148,465
Capital Grant - Section 5309 (0/90)	N/A	2006-0024	133,350	7,531	-	6,777	754	32,263	101,087
Capital Grant - Section 5309 (0/90)	N/A	2007-0097	211,445	1,052	-	947	105	-	210,393
Operating Assistance - Section 5311	20.509	2007-0276-Z1/R1	76,290	-	76,290	-	-	-	-
Rural Transit Assistance Program (RTAP)	N/A	N/A	3,500	3,500	3,500	-	-	-	-
Michigan Department of Transportation									
Operating Assistance - Act 51	N/A	N/A	1,404,217	-	-	1,404,217	-	-	-
Job Access and Reverse Commute Program (JARC)	20.516	2007-0204/Z1	16,000	16,000	8,000	8,000	-	-	-
Total Operating Assistance				546,670	327,042	1,676,977	23,158	762,945	765,349
Total Capital and Operating Assistance				\$ 546,670	\$ 327,042	\$ 1,676,977	\$ 23,158	\$ 762,945	\$ 765,349

This schedule is prepared on an accrual basis of accounting as described in the summary of significant accounting policies in Note 2 of the Notes to Financial Statements.

# Eastern Upper Peninsula Transportation Authority

## Schedule 3 Schedule of Expenses by Division For the Year Ended September 30, 2007

	Nonurban		General		
	Rural Bus	Ferry	Administration	Local	Total
<b>Operating Expenses:</b>					
Salaries	\$ 197,131	\$ 883,715	\$ 154,845	\$ -	\$ 1,235,691
Fringe benefits	76,721	561,509	106,700	-	744,930
Services:					
Advertising fees	497	253	263	-	1,013
Accounting and Audit Cost	-	-	10,165	-	10,165
Purchased transportation services	-	140,519	-	-	140,519
Legal and other services	887	14,029	21,646	-	36,562
Materials and supplies consumed:					
Fuel and lubricants	80,363	373,630	-	-	453,993
Tires and tubes	4,989	16	-	-	5,005
Other materials and supplies	15,977	64,148	5,548	-	85,673
Utilities	9,732	35,732	7,936	-	53,400
Casualty and liability costs:					
Premiums for public liability and property damage insurance	19,905	83,817	-	-	103,722
Other casualty and liability costs	-	1,279	1,808	-	3,087
Travel and auto expenses	-	1,064	16,620	-	17,684
Other miscellaneous expenses	433	3,878	1,173	425	5,909
Depreciation	66,134	473,682	-	138	539,954
Interest expense	-	7,774	-	-	7,774
Administrative overhead	60,597	264,147	(324,744)	-	-
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 533,366</b>	<b>\$ 2,909,192</b>	<b>\$ 1,960</b>	<b>\$ 563</b>	<b>\$ 3,445,081</b>

# Eastern Upper Peninsula Transportation Authority

**OAR SCHEDULE 3E**  
**Nonurban County Ferry Service Reconciled**  
**Expense Schedule Report**  
**For the Year Ended September 30, 2007**

<b>Code</b>	<b>Description</b>	<b>Operations</b>	<b>Maintenance</b>	<b>General Administration</b>	<b>Total</b>
<b>501</b>	<b>: Labor</b>				
50101	Operators Salaries & Wages	\$ 809,723	\$ -	\$ -	\$ 809,723
50102	Other Salaries & Wages	-	73,992	125,951	199,943
<b>502</b>	<b>: Fringe Benefits</b>				
50200	Other Fringe Benefits	367,302	31,939	55,096	454,337
50201	Pensions	146,331	15,938	31,693	193,962
<b>503</b>	<b>: Services</b>				
50302	Advertising Fees	253	-	214	467
80305	Audit Cost	-	-	8,268	8,268
50399	Other Services (Neebish Island operators, Legal Fees, Drug test)	154,547	-	17,607	172,154
<b>504</b>	<b>: Materials and Supplies</b>				
50401	Fuel & Lubricants	373,630	-	-	373,630
50499	Other Materials & Supplies	64,164	-	4,513	68,677
<b>505</b>	<b>: Utilities</b>				
50500	Utilities	35,732	-	6,455	42,187
<b>506</b>	<b>: Insurance</b>				
50603	Liability Insurance	85,096	-	-	85,096
50699	Other Insurance	-	-	1,471	1,471

# Eastern Upper Peninsula Transportation Authority

**OAR SCHEDULE 3E**  
**Nonurban County Ferry Service Reconciled**  
**Expense Schedule Report**  
**For the Year Ended September 30, 2007**

<b>Code</b>	<b>Description</b>	<b>Operations</b>	<b>Maintenance</b>	<b>General Administration</b>	<b>Total</b>
<b>509</b>	<b>: Miscellaneous Expenses</b>				
50902	Travel, Meetings & Training	1,064	-	13,519	14,583
50903	Association, Dues & Subscriptions	2,084	-	954	3,038
50999	Other Misc Expenses (Explain in comment field) (Licenses and permits)	200	-	-	200
<b>511</b>	<b>: Interest Expense</b>				
512000	Interest on Long-Term Debt	7,774	-	-	7,774
<b>513</b>	<b>: Depreciation</b>				
51300	Depreciation	457,488	16,194	-	473,682
<b>550</b>	<b>: Ineligible Expenses</b>				
55006	Other Ineligible Interest Expenses	7,774	-	-	7,774
55007	Ineligible Depreciation	457,488	16,194	-	473,682
<b>574</b>	<b>: Ineligible Expenses</b>				
57402	Ineligible RTAP	-	-	1,828	1,828
<b>Total Expenses</b>					<b>2,909,192</b>
<b>Total Ineligible Expenses</b>					<b>483,284</b>
<b>Total Eligible Expenses</b>					<b>2,425,908</b>



# Eastern Upper Peninsula Transportation Authority

## OAR SCHEDULE 3E Nonurban County Regular Service Reconciled Expense Schedule Report For the Year Ended September 30, 2007

Code	Description	Operations	Maintenance	General Administration	Total
<b>501</b>	<b>: Labor</b>				
50101	Operators Salaries & Wages	\$ 153,505	\$ -	\$ -	\$ 153,505
50102	Other Salaries & Wages	-	34,987	28,894	63,881
<b>502</b>	<b>: Fringe Benefits</b>				
50200	Other Fringe Benefits	48,829	10,864	12,640	72,333
50201	Pensions	8,831	7,536	7,271	23,638
<b>503</b>	<b>: Services</b>				
50302	Advertising Fees	496	-	49	545
80305	Audit Cost	-	-	1,897	1,897
50399	Other Services (Legal Fees, Drug test)	889	-	4,039	4,928
<b>504</b>	<b>: Materials and Supplies</b>				
50401	Fuel & Lubricants	77,635	-	-	77,635
50402	Tires & Tubes	4,989	-	-	4,989
50499	Other Materials & Supplies	14,839	-	1,035	15,874
<b>505</b>	<b>: Utilities</b>				
50500	Utilities	9,032	-	1,481	10,513
<b>506</b>	<b>: Insurance</b>				
50603	Liability Insurance	17,773	-	-	17,773
50699	Other Insurance	-	-	337	337

# Eastern Upper Peninsula Transportation Authority

## OAR SCHEDULE 3E Nonurban County Regular Service Reconciled Expense Schedule Report For the Year Ended September 30, 2007

Code	Description	Operations	Maintenance	General Administration	Total
<b>509</b>	<b>: Miscellaneous Expenses</b>				
50902	Travel, Meetings & Training	-	-	2,735	2,735
50903	Association, Dues & Subscriptions	430	-	219	649
<b>513</b>	<b>: Depreciation</b>				
51300	Depreciation	41,764	24,370	-	66,134
<b>550</b>	<b>: Ineligible Expenses</b>				
55007	Ineligible Depreciation	41,764	24,370	-	66,134
55008	Other Ineligible Expenses (Cost of freight delivery)	720	-	-	720
55009	Ineligible Percent of Association Dues	-	-	74	74
<b>574</b>	<b>: Ineligible Expenses</b>				
57402	Ineligible RTAP	-	-	1,672	1,672
<b>Total Expenses</b>					<b>517,366</b>
<b>Total Ineligible Expenses</b>					<b>68,600</b>
<b>Total Eligible Expenses</b>					<b>448,766</b>

## Eastern Upper Peninsula Transportation Authority

**OAR SCHEDULE 3N**  
**Nonurban Regular Service Nonfinancial Report**  
**Non Financial Schedule Report**  
**For the Year Ended September 30, 2007**

### Public Service

Code	Description	Weekday DR.	Saturday DR.	Sunday DR.	Total
610	Vehicle Hours	11,912	832	816	13,560
611	Vehicle Miles	265,038	18,897	18,327	302,262
615	Passengers - Regular	29,516	3,241	3,051	35,808
616	Passengers - Elderly	1,049	14	5	1,068
617	Passengers - Persons w/Disabilities	16,184	24	15	16,223
622	Total Demand-Response Passengers	46,749	3,279	3,071	53,099
625	Days Operated	253	52	51	356

**Total Passengers: 102,413**

### Vehicle Information

Code	Description	Quantity
655	Total Demand-Response Vehicles	8
656	Demand-Response Vehicle w/ Lifts	4
658	Total Transit Vehicles	8

**Total Vehicles: 24**

### Miscellaneous Information

Code	Description	Quantity DR
660	Diesel/Gasoline Gallons Consumed	28,971
661	Total Transit Agency Employees (Full-Time Equivalents)	10

**Eastern Upper Peninsula Transportation Authority****OAR Schedule 3R  
Nonurban County Ferry Service Reconciled  
Revenue Schedule Report  
September 30, 2007**

<b>Code</b>	<b>Description</b>	<b>Amount</b>
<b>401</b>	<b>: Farebox Revenue</b>	
40100	Passenger Fares	\$ 1,220,969
<b>409</b>	<b>: Local Revenue</b>	
40999	Other Local Contracts & Reimbursements (Explain in comment field)	647
<b>411</b>	<b>: State Formula and Contracts</b>	
41101	State Operating Assistance	1,212,954
<b>413</b>	<b>: Federal Contracts</b>	
41398	Rural Transit Assistance Program	1,828
<b>Total Revenues</b>		<b>\$ 2,436,398</b>

**Eastern Upper Peninsula Transportation Authority****OAR Schedule 3R  
Nonurban County Regular Service Reconciled  
Revenue Schedule Report  
September 30, 2007**

<b>Code</b>	<b>Description</b>	<b>Amount</b>
<b>401</b>	<b>: Farebox Revenue</b>	
40100	Passenger Fares	\$ 64,353
40200	Contract Fares	88,060
40400	Package Delivery/"Meals on Wheels"	5,501
<b>407</b>	<b>NonTrans Revenues</b>	
40760	Proceeds from Sale of Assets (Sale of 4 Buses)	6,628
<b>409</b>	<b>: County Revenue</b>	
40800	County Appropriations	28,075
<b>411</b>	<b>: State Formula and Contracts</b>	
41101	State Operating Assistance	191,268
<b>413</b>	<b>: Federal Contracts</b>	
41301	Federal Section 5311 (Operating funds only)	76,352
41398	Rural Transit Assistance Program	1,672
41399	Other FTA Contracts & Reimbursements (FYE 2005 received after close out)	675
<b>414</b>	<b>Other Revenues</b>	
41400	Interest Revenue	12,301
<b>Total Revenues</b>		<b>\$ 474,885</b>

# Eastern Upper Peninsula Transportation Authority

## Schedule 4 Operating Assistance Calculation For the year ended September 30, 2007

	Nonurban	
	Ferry Operating	Bus Operating
Total Expenses	\$ 2,909,192	\$ 533,366
Less Ineligible Expenses:		
Interest Expense	7,774	-
Depreciation	473,682	66,134
JARC Grant	-	16,000
Rural Transit Assistance Program Grant	1,828	1,672
Freight Delivery Cost	-	720
Ineligible Percent of Association Dues	-	74
Ineligible expenses	483,284	84,600
<b>Total State Eligible Costs</b>	<b>2,425,908</b>	<b>448,766</b>
Eligible Expenses for State Reimbursement	2,425,908	448,766
x Reimbursement Percentage	50.0%	38.62%
State Operating Assistance	\$ 1,212,954	\$ 173,313 *

Eligible Expenses for State Reimbursement	448,766
x Reimbursement Percentage	17.00%
State Operating Assistance	\$ 76,290

\* The amount of formula funds received in FYE 07 is equal to the 1997 floor, \$191,263, per Act 51.

## **Report on Compliance**

---



**ANDERSON, TACKMAN & COMPANY, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**KINROSS OFFICE**

PHILLIP J. WOLF, CPA, PRINCIPAL  
SUE A. BOWLBY, CPA, PRINCIPAL  
KENNETH A. TALSMAN, CPA, PRINCIPAL  

---

DEANNA J. MAYER, CPA

**MEMBER AICPA**  
**DIVISION FOR CPA FIRMS**

**MEMBER MACPA**

**OFFICES IN**  
**MICHIGAN & WISCONSIN**

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors  
Eastern Upper Peninsula Transportation Authority  
4001 I-75 Business Spur  
Sault Ste. Marie, MI 49783

We have audited the financial statements of the business-type activities and major fund of the Eastern Upper Peninsula Transportation Authority as of and for the year ended September 30, 2007, which collectively comprise the Eastern Upper Peninsula Transportation Authority's basic financial statements and have issued our report thereon, dated February 12, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Eastern Upper Peninsula Transportation Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control.



A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Eastern Upper Peninsula Transportation Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Eastern Upper Peninsula Transportation Authority in a separate letter dated February 12, 2008.

This report is intended solely for the information and use of the Board of Directors of Eastern Upper Peninsula Transportation Authority, management and federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.



**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**

February 12, 2008



**ANDERSON, TACKMAN & COMPANY, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**KINROSS OFFICE**

PHILLIP J. WOLF, CPA, PRINCIPAL  
SUE A. BOWLBY, CPA, PRINCIPAL  
KENNETH A. TALSMAN, CPA, PRINCIPAL  

---

DEANNA J. MAYER, CPA

**MEMBER AICPA**  
**DIVISION FOR CPA FIRMS**

**MEMBER MACPA**

**OFFICES IN**  
**MICHIGAN & WISCONSIN**

**REPORT TO MANAGEMENT**

Board of Directors  
Eastern Upper Peninsula  
Transportation Authority  
4001 I-75 Business Spur  
Sault Ste. Marie, MI 49783

We have audited the financial statements of the E.U.P. Transportation Authority for the year ended September 30, 2007, and have issued our reports thereon dated February 12, 2008. Professional standards require that we provide you with the following, information related to our audit.

**Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards**

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting standards. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control structure of the E.U.P. Transportation Authority. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control structure.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of E.U.P. Transportation Authority's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

### **Significant Accounting Policies**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of the accounting policies and their application. The significant accounting policies used by the E.U.P. Transportation Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year. We noted no transactions entered into by the E.U.P. Transportation Authority during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is lack of authoritative guidance or consensus.

### **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Our conclusions regarding the reasonableness of the estimates are based on reviewing and testing the historical data provided by management and using this data to compute the liability. An example of an estimate used by the Authority is the useful lives of their fixed assets.

### **Audit Adjustments**

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the E.U.P. Transportation Authority's financial reporting process (that is, cause financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the E.U.P. Transportation Authority, either individually or in the aggregate indicate matters that could have a significant effect on the E.U.P. Transportation Authority's financial reporting process.

### **Disagreement with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Consultation with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about accounting and auditing matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the E.U.P. Transportation Authority’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us as to determine the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### **Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the E.U.P. Transportation Authority’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in the performance of our audit. Other communications were communicated orally with management during the audit process.

### **Comments and Recommendations**

#### **Fixed Assets**

The Authority is required to capitalize all assets purchased by grants received; therefore, there is no minimum limitation for the dollar amount of an asset to be capitalized. The Authority should have a policy written reflecting their capitalization procedures.

#### **Fraud Policy**

With the implementation of Statement on Auditing Standards No. 99, auditors are required to assess policies and procedures regarding fraud risks within a governmental entity. The Board does not have a “fraud policy” which would address fraud or suspected fraud and related board actions. We recommend the Board adopt a fraud policy in compliance with SAS No. 99.

#### **GASB Statement 45 – Accounting and Financial Reporting By Employers for Post-Employment Benefits Other Than Pensions**

In June 2004, the GASB issued Statement 45, which establishes standards for the measurement, recognition, and display of other post-employment benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. OPEB includes post-employment healthcare as well as other post-employment benefits such as life insurance.

The Statement is implemented in three phases, with the E.U.P. Transportation Authority required to implement the Statement for the year ended September 30, 2009. GASB Statement 45 is going to impact the future accounting of post-employment health insurance costs as it relates to the amount the Authority will be required to fund these benefits. Beginning in 2009, the Authority will be required by governmental generally accepted accounting principles to pay the current cost of providing those benefits as well as an amount needed to fund a portion of the unfunded liability relating to the post-employment health benefit. The unfunded liability will be required to be actuarially determined and will be amortized over a period likely not to exceed thirty years. The methods used as part of Statement 45 are similar to those currently used to determine required contribution rates for defined benefit pension plans.

The Authority as well as Management should begin to consider the impact of GASB Statement 45 prior to the required implementation date.

### **Conclusion**

We would like to express our appreciation, as well as that of our staff for the excellent cooperation we received while performing the audit. If we can be of assistance, please contact us.

This information is intended solely for the use of management and the Board of Directors of Eastern Upper Peninsula Transportation Authority, state and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**

February 12, 2008